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LOCAL GOVERNMENT MUNICIPAL BUDGET ASSESSMENT OF 2018/19 MTREF

EMALAHLENI LOCAL MUNICIPALITY

(EC 135)

26 APRIL 2018

CHRIS HANI DISTRICT

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1. EXECUTIVE SUMMARY

The annual assessment of Municipal Budgets and Integrated Development Plans (IDP) are performed every year by Provincial Treasury. Such analysis are stipulated in terms of Chapter 5 of the Local Government Municipal Systems Act 32 of 2000 (MSA) and Local Government Municipal Finance Management Act 56 of 2003 (MFMA). This assessment is in accordance with the legislative requirements of the Constitution, whereby provincial governments have mandatory responsibility to exercise its monitoring and provide support to municipalities.

The municipal budget assessment encompasses three distinct criteria namely, credibility; relevance and sustainability as explained in the MBRR. The purpose of each criteria is as follows:

- **Credibility:** - to determine if the budget is funded in terms of Section 18 of the MFMA and whether the municipality adopted a budget process with evidence of sufficient political oversight and public participation. Council is responsible for approving the municipal budget hence political oversight and guidance is crucial to the budget process. The budget gives effect to Council priorities as articulated in the municipality's Integrated Development Plan (IDP); and Council must ensure that service delivery is affordable and financially sustainable. In assessing the credibility of the budget, the fiscal planning framework and associated assumptions are interrogated to determine if they are realistic and indicative of multi-year budgeting;
- **Relevance:** - to assess if the budget is aligned to the reviewed IDP of the municipality and the extent to which national and provincial priorities, including MFMA Budget Circulars, are considered and
- **Sustainability:** - to assess whether the budget supports the long-term financial planning and operational sustainability of the municipality over the Medium Term Revenue and Expenditure Framework (MTREF).

The overall assessment of the 2018/19 draft budget has taken into account a lot of variables that may not ordinarily arise. These variables are ranging from the implementation of m-SCOA as set out in the 2014 regulations to the economy that has struggled to grow as anticipated.

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

The 2018/19 draft budget assessment of Emalahleni can be summarized under the following key areas:

- A budget of R57.4 million has been allocated to fund capital programs, of this amount 66% will be spent on Community, social services and Sport and recreation allocated for R19.1 million and R18.9 million respectively;
- The funding mix to the capital budget consists of 73.5% government grants and 26.5% Borrowing;
- The municipality did not submit its budget document therefore we were unable to assess its budget assumptions;
- R5.2 million has been allocated towards repairs and maintenance for the 2018/19 financial year. This is equivalent to 0.2% of the total value of PPE;
- The municipality has tabled an operating deficit of R28.6 million for 2018/19, and an operating deficit R28.5 million and R25.7 million for 2019/20 and 2020/21 respectively;

2. CREDIBILITY OF THE 2018/19 MTREF

2.1. EVALUATION OF THE BUDGET PROCESS

2.1.1. POLITICAL GUIDANCE AND OVERSIGHT

Emalahleni municipal council adopted its 2018/19 IDP and Budget process plan on the 29th of August 2018. The municipality did establish a budget steering committee that sat regularly.

2.1.2. PUBLIC PARTICIPATION ON THE 2018/19 BUDGET

The municipality has conducted Mayoral Imbizos or Budget Public Hearings in all the wards within the municipal area to identify priorities from communities. In addition to the above, IDP rep forum meetings were held wherein departments and other stakeholders were afforded opportunity to present their plans for Emalahleni in respect of the 2018/19 financial year.

2.1.3. EVALUATION OF THE LEGAL COMPLIANCE OF THE BUDGET

The 2018/19 budget of Emalahleni was tabled to council on 29th of March 2018 as required by the MFMA and the budget was submitted to National and Provincial Treasury on the 16th of April 2018 in breach of budget circular 91. The municipality has only submitted the A1 schedules as prescribed by the MBRR, the budget document is still outstanding.

The municipality updates its mSCOA data strings into the NT portal, however there are some errors that have not yet been rectified.

2.2. MUNICIPAL REVENUE AND EXPENDITURE FISCAL FRAMEWORK

2.2.1. EXPECTED OUTCOME FOR THE CURRENT FINANCIAL YEAR

The 2017/18 budget of Emalahleni municipality reflects significant variance when compared to the previous audited performance, on the following line items amongst others:

- Property Rates
- Service charges electricity revenue
- Service charges refuse revenue
- Investment revenue
- Agency services
- Debt impairment
- Other expenditure.

The capital budget has been funded from government grants as well as own revenue which is a commendable effort for the municipality. The municipality has at the end of M09 reported year to date capital expenditure of 73%, mainly for MIG. The municipality needs to pick up spending on its capital expenditure as time is nearing the end of the financial year and the municipality has already adjusted its budget once as required by the MFMA.

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

2.2.2. BUDGET ASSUMPTIONS

The municipality has not submitted its budget document therefore we were unable to assess its budget assumptions.

Key to budget assumptions is the following:

- The basis of annual increases in employee related costs in line with the SALBC agreement;
- Annual increases in tariffs and cost-reflectiveness thereof and;
- The average collection rate for 2018/19.

The municipality is urged to incorporate this information in its final budget to be adopted by council.

2.2.3. ADEQUACY OF REVENUE MANAGEMENT FRAMEWORK

Table 1 below reflects the operating revenue projections of Emalahleni in respect of the 2018/19 MTREF including year-on-year growth.

Table 1: Analysis of operating revenue

EC136 - Emalahleni (Ec)	CURRENT YEAR	MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK						ASSUMPTIONS & CALCULATIONS		
Description	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2018/19	2019/20	2020/21
R thousand	Adjusted Budget	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation	% Change	% Change	% Change
Revenue By Source										
Property rates	4 502	3 615	3 615	3 896	3 896	4 191	4 191	-19.7%	7.8%	7.6
Service charges - electricity revenue	9 757	10 570	10 570	11 204	11 204	11 869	11 869	8.3%	6.0%	5.9
Service charges - water revenue	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	3 764	3 813	3 813	4 093	4 093	4 388	4 388	1.3%	7.4%	7.2
Service charges - other	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	906	973	973	1 022	1 022	1 073	1 073	7.4%	5.0%	5.0
Interest earned - external investments	1 081	2 045	2 045	2 148	2 148	2 255	2 255	89.3%	5.0%	5.0
Interest earned - outstanding debtors	5 091	5 386	5 386	5 655	5 655	5 938	5 938	5.6%	5.0%	5.0
Dividends received	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	99	110	110	115	115	121	121	10.5%	5.0%	5.0
Licences and permits	1 690	2 145	2 145	2 252	2 252	2 364	2 364	26.9%	5.0%	5.0
Agency services	858	1 313	1 313	1 379	1 379	1 447	1 447	53.0%	5.0%	5.0
Transfers and subsidies	123 139	122 903	122 903	130 951	130 951	138 482	138 482	-0.2%	6.5%	5.8
Other revenue	890	554	554	581	581	610	610	-37.8%	5.0%	5.0
Gains on disposal of PPE	115	-	-	-	-	-	-	-100.0%	-	-
Total Revenue (excluding capital transfers and contributions)	151 893	153 426	153 426	163 295	163 295	172 739	172 739	1.0%	6.4%	5.8

Source: 2018/19 budget – Emalahleni

The total operating revenue in respect of the 2018/19 financial year is projected at R153.4 million. This revenue shows a year on year growth of 1% from R151 million projected in 2017/18.

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

The above stagnant growth is attributed to the following projected revenue items amongst others:

- Property rates revenue
- Other revenue
- Gains on disposal of PPE

The municipality is expected to comment on the above significant decreases or increases and any other increase in excess of 5.2% as required by the latest MFMA budget circulars.

Operational transfers amount to R122.9 million or 80% of the total operating revenue. This indicates a level of dependency by the municipality on government grants to fund its operations. This trend is expected to continue for the entire MTREF.

The projected decrease of 19.7% on property rates revenue seems unrealistic considering the annual changes on property values within the municipal area and the property rates annual tariff increment guided by the property rates act, policy and the latest budget circulars. However, this revenue will grow by 7.8% and 7.6% for the remainder of the MTREF.

Service charges refuse projected to grow by 1% this seems unrealistic considering the expected annual tariff increment. Also there is no alignment between refuse revenue raised of 3.8 million in A4 and the projected revenue by function in A2 of R6.9 million with a corresponding expenditure of R11.9 million resulting in a deficit of R5 million. The municipality is reminded to implement cost reflective tariffs, which will absorb the costs of providing a service. The projected revenue on the above service will grow by 7.4% and 7.2% respectively for the remainder of the MTREF.

The municipality is expected to justify on its budget book the above growth of 89.3% interest on investment as it seems unrealistic. This revenue represents interest earned on call accounts or short term investments made up of transfers from conditional grants.

2.2.4. ADEQUACY OF EXPENDITURE MANAGEMENT FRAMEWORK

The total operating expenditure in respect of the 2018/19 financial year is projected at R182.1 million a year on year decline of 0.2% from R182.5 million in 2017/18 financial year. The details of operating expenditure are reflected in table 2 below.

Table 2: Operating expenditure of Emalahleni municipality

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
EMALAHLENI LOCAL MUNICIPALITY**

EC136 - Emalahleni (Ec)	CURRENT YEAR	MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK						ASSUMPTIONS & CALCULATIONS		
Description	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2018/19	2019/20	2020/21
R thousand	Adjusted Budget	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation	% Change	% Change	% Change
Expenditure By Type										
Employee related costs	76 292	86 055	86 055	91 213	91 213	97 886	97 886	12.8%	6.0%	7.3%
Remuneration of councillors	12 688	13 703	13 703	14 799	14 799	15 983	15 983	8.0%	8.0%	8.0%
Debt impairment	3 000	6 000	17 087	6 000	18 118	6 000	19 201	100.0%	0.0%	0.0%
Depreciation & asset impairment	25 546	24 256	24 256	24 256	24 256	24 256	24 256	-5.0%	0.0%	0.0%
Finance charges	657	2 116	2 116	2 116	2 116	2 116	2 116	221.9%	0.0%	0.0%
Bulk purchases	14 920	15 070	15 070	15 070	15 070	15 070	15 070	1.0%	0.0%	0.0%
Other materials	5 094	3 296	3 296	2 496	2 496	2 496	2 496	-35.3%	-24.3%	0.0%
Contracted services	17 163	11 414	11 414	15 612	15 612	14 412	14 412	-33.5%	36.8%	-7.7%
Transfers and subsidies	1 379	290	290	290	290	290	290	-79.0%	0.0%	0.0%
Other expenditure	25 801	19 915	19 915	19 960	19 960	20 009	20 009	-22.8%	0.2%	0.2%
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	-
Total Expenditure	182 540	182 114	193 201	191 812	203 930	198 518	211 719	-0.2%	5.3%	3.5%

Source: 2018/19 budget

Employee related costs for 2018/19 have been budgeted at R86 million which reflects a year on year increase of 12.8%. The municipality must provide on its budget document reasons for the above growth and to consider wage bill as to be provided by SALGA.

Employee related costs accounts for 47% of the total operating expenditure which is above the norm of 40% as prescribed by the National Treasury.

Debt impairment has increased drastically year on year by 100% justifiably informed by the projected billed revenue in A4 against collection in A7. The municipality is urged to provide reasons and planned strategies on how to improve their collection rate on its budget document for such a significant increase. As the situation depicts minimal enforcement of credit control policies.

The municipality has allocated R5.2 million in respect of repairs and maintenance for 2018/19 and this is equivalent to 1.2% of the total value of PPE way below the norm of 8%. The municipality is advised to take into account the provision of MFMA circular 55 and subsequent circulars on budgeting for repairs and maintenance.

A failure to repair and maintain assets causes loss of economic value to the asset concerned and minimises the health of the asset, which could compromise the ability of the municipality to deliver desired services to the community.

The municipal budget and reporting regulations (MBRR) has amongst other sought to achieve transparency in the municipal budgets.

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

2.2.5. ADEQUACY OF CAPITAL BUDGET AND SOURCES OF FUNDING

Emalahleni municipality is mandated to provide roads, electrification and refuse removal to the community. The municipality is commended for having completed supporting table SA36 outlining capital projects to be implemented during the 2018/19 financial year.

The details of capital expenditure are reflected on table 3 below:

Table 3: Capital expenditure of Emalahleni municipality

EC136 - Emalahleni (Ec)		Table A5 Budgeted Capital Expenditure by vote, standard classification and funding			CURRENT YEAR				MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK		
Vote Description		2014/15	2015/16	2016/17	2017/18	2017/18	2017/18	2017/18	2018/19	2019/20	2020/21
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year +0	Budget Year +1	Budget Year +2
Capital Expenditure - Functional											
Governance and administration		10 548	10 094	6 950	5 850	6 180	-	-	15 000	-	-
Executive and council					4 100	4 000					
Finance and administration		10 548	10 094	6 950	1 550	2 180			15 000	-	-
Internal audit											
Community and public safety		17 654	6 912	5 064	3 258	2 608	-	-	38 149	11 918	11 674
Community and social services		12 680	5 160	5 064	2 958	2 309			19 170	8 918	11 674
Sport and recreation		4 964	1 752	-	300	300			19 679	3 000	-
Public safety											
Housing											
Health											
Economic and environmental services		10 324	31 890	21 875	18 925	19 244	-	-	2 733	17 130	16 809
Planning and development					1 850	1 409					
Road transport		10 324	31 890	21 875	17 075	17 835			2 733	17 130	16 809
Environmental protection											
Trading services		-	-	2 709	12 526	11 671	-	-	1 600	2 800	5 000
Energy services				2 709	9 664	9 889					5 000
Water management											
Waste water management					1 842	1 982					
Waste management					1 020	-			1 600	2 800	-
Other											
Total Capital Expenditure - Functional		38 526	48 896	36 598	40 359	39 904	-	-	57 462	31 848	33 483
Funded by:											
National Government		30 399	30 615	26 170	32 358	32 358			42 257	31 848	33 483
Provincial Government											
District Municipality											
Other transfers and grants											
Transfers recognised - capital		30 399	30 615	26 170	32 358	32 358	-	-	42 257	31 848	33 483
Public contributions & donations											
Borrowing					8 000	7 545			15 000		
Internally generated funds		8 127	18 281	10 428					225		
Total Capital Funding		38 526	48 896	36 598	40 358	39 903	-	-	57 482	31 848	33 483

Source: 2018/19 budget

The capital budget expenditure is projected at R57.4 million for the budget year. The municipality will use the total capital budget for acquisition of new assets and for upgrading of existing assets.

The budget allocated for community and public safety amounts to R38.1 million and is equivalent to 66% of the total capital budget.

2.2.6. CAPITAL FUNDING

The total capital funding in respect of the 2018/19 financial year is R57.4 million. The funding mix consists of Government grants (R42.2 million) constitute 73% of the total budget and Borrowings by the municipality constituting 26% and the balance of 1% funded from internally generated funding.

2.2.7. RECONCILIATION OF GRANTS TO THE 2018 DoRA

The total grant allocation for Emalahleni is reflected in table 4 below.

Table 4: Grants reconciliation for Emalahleni municipality

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

EC136 Emalahleni (Ec) - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		107 817	142 953	128 929	121 348	121 348	-	121 856	129 846	137 372
Local Government Equitable Share		92 038	116 537	114 589	115 992	115 992		115 774	120 890	129 098
Finance Management		1 800	1 875	2 010	2 345	2 345		2 415	2 880	3 312
Municipal Systems Improvement		934	930	-	-	-		-	-	-
EPWP Incentive		1 217	1 000	1 415	1 308	1 308		2 022	-	-
Integrated National Electrification Programme		11 000	21 000	9 317	-	-		-	4 400	3 200
Municipal Infrastructure Grant (MIG)		828	1 611	1 588	1 703	1 703		1 645	1 676	1 762
Waste Management										
Provincial Government:		2 148	1 733	900	900	900	-	952	1 005	1 005
Rural Development			930	-	-	-		-	-	-
Waste Management		1 343	-	-	-	-		-	-	-
Library		803	803	900	900	900		952	1 005	1 005
District Municipality:		1 500	1 312	2 333	1 500	801	-	-	-	-
Greenest Municipality			200	200	-	-		-	-	-
Indigent Application Project			112	-	-	-		-	-	-
Transport			-	132	-	-		-	-	-
Feedlot			-	801	500	801		-	-	-
IT Support			-	200	-	-		-	-	-
Paving		1 500	1 000	1 000	1 000	-		-	-	-
Other grant providers:		-	-	-	90	90	-	95	100	105
SETA					90	90		95	100	105
Total Operating Transfers and Grants	5	111 463	145 998	132 161	123 838	123 139	-	122 903	130 951	138 482
Capital Transfers and Grants										
National Government:		30 142	30 615	23 170	32 358	32 358	-	42 257	31 848	33 484
Municipal Infrastructure Grant (MIG)		30 142	30 615	23 170	32 358	32 358		42 257	31 848	33 484
Provincial Government:		257	-	1 795	-	-	-	-	-	-
Waste Management		257	-	-	-	-		-	-	-
Roads			-	1 795	-	-		-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Paving		-	-	-	-	-		-	-	-
Feedlot		-	-	-	-	-		-	-	-
Other grant providers:		-	-	-	-	-	-	-	-	-
SETA		-	-	-	-	-		-	-	-
Total Capital Transfers and Grants	5	30 399	30 615	24 965	32 358	32 358	-	42 257	31 848	33 484
TOTAL RECEIPTS OF TRANSFERS & GRANTS		141 862	176 613	157 127	156 196	155 497	-	165 160	162 799	171 966

Source: 2018/19 budget

The total direct transfers from National and Provincial government amounts to R168 million. However, according to the above table SA18, the municipality has recognized grants from provincial transfers amounting to R3.9 million. The above is attributed to the following:

- Library services amounting to R900 thousand have not been included in the above table.
- EPWP Greenest municipality competition amounting to R3 million.

The above mentioned anomalies should be rectified during the 2018/19 final budget.

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

The municipality is advised to recognize allocations/transfer amounts that have been gazette (DoRA and Provincial Gazette).

2.2.8. FINANCIAL POSITION

The financial position of Emalahleni is reflected in table 5 below.

Table 5: Financial position – Emalahleni

EC136 - Emalahleni (Ec)	Table A6 Budgeted Financial Position				CURRENT YEAR			MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
Vote Description	2014/15	2015/16	2016/17	2016/17	2017/16	2017/16	2017/16	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	AFS Totals	Original Budget	Adjusted Budget	Treasury Calculation	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
ASSETS													
Current assets													
Cash	3 213	2 396	2 674	2 674	1 072	16 270	—	13 154	—	5 205	—	4 309	—
Call investment deposits	28 563	26 023	10 260	10 260	—	—	—	—	—	—	—	—	—
Consumer debtors	22 582	12 747	7 340	7 350	17 906	2 097	7 350	14 681	7 350	19 534	7 350	24 854	7 350
Other debtors	2 222	6 110	13 233	13 223	—	16 366	1 770	12 490	1 770	12 114	1 770	10 114	1 770
Current portion of long-term receivables	—	—	—	—	—	—	—	—	—	—	—	—	—
Inventory	—	—	—	—	—	—	—	—	—	—	—	—	—
Total current assets	56 580	47 277	33 707	33 707	18 978	36 732	9 120	40 525	9 120	36 653	9 120	39 277	9 120
Non current assets													
Long-term receivables	—	—	—	—	—	—	—	—	—	—	—	—	—
Investments	—	—	—	—	—	—	—	—	—	—	—	—	—
Investment property	6 434	4 162	4 154	4 154	3 972	3 880	4 154	3 871	4 154	3 861	4 154	3 852	4 154
Investment in Associates	—	—	—	—	—	—	—	—	—	—	—	—	—
Property, plant and equipment	388 475	397 130	412 032	412 032	436 925	426 473	426 390	443 686	459 616	450 506	467 207	458 961	476 434
Agricultural	—	—	—	—	—	—	—	—	—	—	—	—	—
Biological	—	—	—	—	—	—	—	—	—	—	—	—	—
Intangible	207	131	309	309	191	296	309	265	309	234	300	203	309
Other non-current assets	183	183	183	183	183	183	183	183	183	183	183	183	183
Total non-current assets	395 298	401 605	416 678	416 678	441 271	430 831	431 036	448 004	464 281	454 784	471 853	463 199	481 080
TOTAL ASSETS	451 878	448 882	450 384	450 385	480 249	467 563	460 156	488 529	473 382	491 636	480 974	502 475	490 200
LIABILITIES													
Current liabilities													
Bank overdraft	—	—	—	—	—	—	3 015	—	34 890	—	50 953	—	65 772
Borrowing	263	353	295	295	310	—	—	1 035	—	1 139	—	1 253	—
Consumer deposits	—	—	—	—	—	—	—	—	—	—	—	—	—
Trade and other payables	20 592	22 996	20 841	20 841	26 501	27 094	19 719	26 425	18 616	25 000	18 902	27 000	18 808
Provisions	18 612	18 071	20 243	20 243	20 401	21 862	20 243	22 562	20 243	23 263	20 243	24 000	20 243
Total current liabilities	39 467	41 420	41 379	41 379	47 212	48 956	42 976	50 022	73 719	49 402	90 097	52 253	104 821
Non current liabilities													
Borrowing	547	295	—	—	8 283	7 545	—	13 024	—	11 885	—	10 632	—
Provisions	5 694	6 533	6 878	6 878	8 210	7 428	6 878	8 280	6 878	9 616	6 878	11 352	6 878
Total non-current liabilities	6 241	6 828	6 878	6 878	16 493	14 973	6 878	21 304	6 878	21 701	6 878	21 984	6 878
TOTAL LIABILITIES	45 708	48 248	48 257	48 257	63 705	63 929	49 853	71 326	80 596	71 102	96 975	74 237	111 698
NET ASSETS	406 170	400 634	402 127	402 128	396 544	403 634	390 303	417 203	392 785	420 534	383 999	428 239	378 502
COMMUNITY WEALTH/EQUITY													
Accumulated Surplus/(Deficit)	406 170	400 462	402 128	402 128	396 544	403 634	390 303	417 203	392 785	420 534	383 999	428 239	378 502
Reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
Minorities' interests	—	—	—	—	—	—	—	—	—	—	—	—	—
TOTAL COMMUNITY WEALTH/EQUITY	406 170	400 462	402 128	402 128	396 544	403 634	390 303	417 203	392 785	420 534	383 999	428 239	378 502

Source: 2018/19 budget

The municipality to take note that even though there is a provision of interest on investment for 2018/19 on A4, no corresponding provision on A6 of call investment deposits have been made to the effect of receiving government grants. This will be the case throughout the MTREF. The municipality is urged to unbundle and correctly allocate their cash balance.

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The alignment sought between Cash and investments held on A6 and cash and cash equivalents at the yearend of R3.1 million on table A7 is achieved. The municipality is commended for such an effort.

2.2.9. LEVEL OF FUNDING OF THE 2018/19 BUDGET

Table 6 below is a reflection of the level of funding of the 2018/19 MTREF for Emalahleni.

Table 6: Cash position of Emalahleni

EC136 - Emalahleni (Ec)	CURRENT YEAR		MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
Description	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
R thousand	Adjusted Budget	Treasury Calculation	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
CASH FLOW FROM OPERATING ACTIVITIES								
Receipts								
Property rates	3 940	1 801	1 265	1 446	1 364	1 558	1 467	1 676
Service charges	11 832	7 445	10 848	7 907	11 516	8 381	12 218	8 878
Other revenue	4 444	1 778	4 461	2 037	4 684	2 139	4 918	2 246
Government - operating	123 139	123 139	122 903	122 903	130 951	130 951	138 482	138 482
Government - capital	32 358	32 358	42 257	42 257	31 848	31 848	33 484	33 483
Interest	5 535	1 081	3 930	2 045	4 127	2 148	4 333	2 255
Dividends	-	-	-	-	-	-	-	-
Payments								
Suppliers and employees	(145 961)	(153 081)	(149 452)	(150 555)	(159 150)	(158 864)	(160 771)	(165 951)
Finance charges	(657)	(657)	(2 116)	(2 116)	(2 116)	(2 116)	(2 116)	(2 116)
Transfers and Grants	(1 379)	(1 379)	(290)	(290)	(290)	(290)	(290)	(290)
NET CASH FROM/(USED) OPERATING ACTIVITIES	33 251	12 484	33 807	25 636	22 934	15 755	31 726	18 664
CASH FLOWS FROM INVESTING ACTIVITIES								
Receipts								
Proceeds on disposal of PPE	115	115	-	-	-	-	-	-
Decrease (Increase) in non-current debtors	-	11 452	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	6 500	-	2 000	-	2 000	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-
Payments								
Capital assets	(37 478)	(39 904)	(57 482)	(57 482)	(31 848)	(31 848)	(33 483)	(33 483)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(37 363)	(28 337)	(50 982)	(57 482)	(29 848)	(31 848)	(31 483)	(33 483)
CASH FLOWS FROM FINANCING ACTIVITIES								
Receipts								
Short term loans	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	7 545	-	15 000	-	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-	-	-	-	-
Payments								
Repayment of borrowing	(295)	(295)	(941)	-	(1 035)	-	(1 139)	-
NET CASH FROM/(USED) FINANCING ACTIVITIES	7 250	(295)	14 059	-	(1 035)	-	(1 139)	-
NET INCREASE/ (DECREASE) IN CASH HELD	3 138	(16 149)	(3 116)	(31 845)	(7 949)	(16 093)	(896)	(14 819)
Cash/cash equivalents at the year begin:	13 134	13 134	16 270	(3 015)	13 154	(34 860)	5 205	(50 953)
Cash/cash equivalents at the year end:	16 272	(3 015)	13 154	(34 860)	5 205	(50 953)	4 309	(65 772)

Source: 2018/19 budget

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

The municipality's cash flow budget reflects positive cash/cash equivalents of R13.1 million for 2018/19, R5.2 million for the 2019/20 and R4.3 million for 2020/21 financial year respectively. It is in our considered view, that the budgeted cash flow is different than depicted in table A7 of the municipality.

The recalculated cash flow however, reflects negative cash/cash equivalents throughout the MTREF and that is an indication of an unfunded budget. The Municipality must therefore ensure that the budget is funded before tabling to council. In the event that a municipality tables an unfunded budget, the municipality needs to put appropriate strategies in place to address the problem and also explain measures in its budget document to be tabled to council. Reference is made to MFMA circular 55 paragraph 4.3.

Supporting table SA30 should provide a monthly projected cash flow, which is a monthly break down of the cash flow figures as reflected and should reconcile to table A7. On review of the supporting table SA30 we have noted that the municipality has incorrectly used a straight line method, when determining their monthly projections.

2.2.10. CASHBACKED RESERVES RECONCILIATION

The level of funding in respect of the 2018/19 budget of Emalahleni is reflected in table 7 below.

EC136 - Emalahleni (Ec)		CURRENT YEAR		MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
Description		2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
		Adjusted Budget	Treasury Calculation	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
R thousand									
Cash and investments available									
Cash/cash equivalents at the year end		16 272	(3 015)	13 154	(34 860)	5 205	(50 953)	4 309	(65 772)
Other current investments > 90 days		(2)	-	-	-	0	-	0	-
Non current assets - Investments		-	-	-	-	-	-	-	-
Cash and Investments available:		16 270	(3 015)	13 154	(34 860)	5 205	(50 953)	4 309	(65 772)
Application of cash and investments									
Unspent conditional transfers		-	801	-	801	-	801	-	801
Unspent borrowing		-	-	-	-	-	-	-	-
Statutory requirements		-	(1 120)	-	(1 165)	-	(903)	-	(903)
Other working capital requirements		12 083	15 272	10 495	14 170	6 592	14 455	6 672	14 360
Other provisions		-	20 243	-	20 243	-	20 243	-	20 243
Long term investments committed		-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments		-	-	-	-	-	-	-	-
Total Application of cash and investments:		12 083	35 195	10 495	34 047	6 592	34 596	6 672	34 500
Surplus(shortfall)		4 187	(38 210)	2 659	(68 907)	(1 387)	(85 549)	(2 363)	(100 272)

Source: 2018/19 budget

The reconciliation based on the information provided by the municipality.

The municipality has not disclosed on current investment in both table A8 and SA3, whereas unbundling of cash balance is necessary.

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY

The basis of working capital disclosed in table A8 seems reflects a budgeted collection rate of 58.2% over the MTREF.

The working capital is an important figure in determining if the available cash is sufficient to cover reserves to be cashed back and other financial commitments. According to cost coverage therefore, the municipality can sustain itself for a period of 1month.

3. RELEVANCE

3.1. BUDGET ALIGNMENT TO THE IDP

In terms of the budget tables, there should be alignment between table A4 and supporting table SA4, table A4 and supporting table SA5 and this reflects operating revenue and expenditure. In relation to the capital budget, table A5 should align with supporting table SA6. The municipality has populated the above supporting tables indicating alignment to the IDP.

3.2. BUDGET ALIGNMENT TO NATIONAL PROGRAMMES

Approximately 66% of the capital budget has been allocated for construction community facilities and sports and recreation within the municipal area with the remainder allocated to various municipal projects.

4. SUSTAINABILITY

Our assessment of the 2018/19 MTREF of Emalahleni has led us to conclude based on the information availed that this is cash funded, though it will not sustain itself over the MTREF. This conclusion is arrived at based on the following observations:

- The recalculated cash flow, despite some omissions, reflect that the municipality should realize a surplus;

5. FREE BASIC SERVICES (FBS)

The municipality has not completed supporting table SA9 and SA21, however SA14 has been completed. We were therefore unable to assess the adequacy of FBS provided for 2018/19 financial year.

We have noted that in SA21 the municipality has not provided for amounts paid over to Eskom in relation to FBS on areas supplied by Eskom.

6. FORECASTING AND MULTI YEAR BUDGETING

We have noted that Emalahleni has used a mechanical straight line method to project for operating revenue and expenditure with no consideration as to the timing of its occurrence. The municipality has simply divided annual amounts by 12 months without considering seasonal influences. This is evident in SA25, 26, 27, 28, 29 and 30.

7. KEY OBSERVATION / FINDINGS / RISK AND RECOMMENDATIONS

7.1. KEY OBSERVATIONS AND FINDINGS

- The budget was submitted very late to NT and PT;
- The has not submitted the budget document;
- R5.2 million has been allocated for repairs and maintenance and this is equivalent to only 1.2% of the total value of PPE;
- The municipality has incorrectly disclosed provincial allocations as national allocation on table SA18;
- The 2018/19 budget is funded for 2018/19, however unfunded for the rest of the MTREF;
- Municipality has not provided for FBS on electricity for areas supplied by ESKOM;
- The municipality has also applied a straight line methods in projecting operating revenue and expenditure and has not taken into account seasonal influences / timing of the occurrence;

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
EMALAHLENI LOCAL MUNICIPALITY**

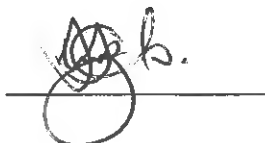
8. RECOMMENDATIONS

In view of the above assessment, it is recommended that the municipality:

- takes note of the report and its findings;
- the municipality should comply with submission dates reflected on the latest MFMA budget circulars;
- extend invitation to Provincial Treasury for all budget related meetings and forums;
- strive to achieve alignment between the budget main tables and budget supporting tables;
- revise budget in order to ensure that it is capable of being implemented;
- increase the budget allocated for repairs and maintenance;
- reconsider adequacy of the provision made for FBS and its correct disclosure in the budget;

COMPILED BY: T MZOLO

SIGNATURE:

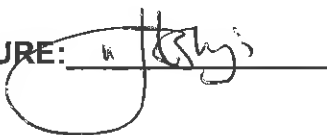


DATE:

18/05/2018

REVIEWED AND APPROVED BY: J. NTSHINGA

SIGNATURE:



DATE:

18/05/2018